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C O N F I D E N T I A L SECTION 01 OF 02 RIYADH 003147

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SUBJECT: ARAMCO VP THINKS KARAN GAS DISCOVERY WILL PROVE "A GOOD HIT"

REF: RIYADH 1177 (NOTAL)

Classified by Consul General John Kincannon for reasons 1.4 (b) and (d).

¶1. (C) Summary: Yousef Rafie, Saudi Aramco's Senior VP for Gas Operations, expanded on press reports of Aramco's recent discovery of gas in the Karan field, saying that the exploratory well was drilled into the first layer of the deep Khuff formation and was producing dry gas. He estimated reserves of 10 to 15 trillion cubic feet but cautioned that a definitive statement of reserve size would have to wait for further exploration. Rafie expressed satisfaction with Sinopec's performance in the Aramco-Sinopec gas joint venture (JV), noting that results from its first two wells will be known in the next two weeks. He touched briefly on several large upcoming JV projects and expressed a "personal opinion" that Aramco would not expand its maximum sustainable oil production capacity after 2009, when it is scheduled to reach 12 or 12.5 million barrels per day. End summary.

¶2. (C) CG and EconOff visited Rafie on April 24 to discuss Aramco's recently announced discovery of a gas at the offshore Karan field and other issues. Rafie said that the Karan find was part of Aramco's efforts to locate unassociated gas reserves to meet the Kingdom's growing energy and petrochemical needs. Sensing from seismic data that there might be a gas field in the "Khuff" formations that lie below the oil-bearing "Arab" formations of the Karan field, Aramco drilled an exploratory well into the Khuff A layer. This well, according to press reports, produced gas at a rate of 40 million cubic feet per day (Mmcf/d) and could eventually produce a rate of 80 Mmcf/d. Rafie noted that further exploratory drilling would be needed to determine the overall size of the unassociated gas reservoir in Karan's Khuff formations, but he expressed optimism based on the single well and detailed seismic data. "I think it will be a good hit," he said. "I think we may have a reservoir of 10 to 15 trillion cubic feet (Tcf) of gas, with single wells capable of producing up to 100 Mmcf/day." Rafie described the gas flowing from the well as dry (C1) gas, useable for energy production but not as a petrochemical feedstock.

¶3. (C) Rafie said the four joint ventures (JVs) between Aramco and international oil companies (IOCs) to explore for unassociated gas in the Rub Al-Khali were "going very well," although the JV with Lukoil seemed to be progressing a "bit more slowly" than the other three. He said that the Sinopec JV had almost completed its first two exploratory wells.

"They were rushing to try to get something to announce during the Chinese President's visit, but they didn't quite make it.

We expect to have results from these wells in the next two weeks." Rafie said that Sinopec was expanding its presence in the Kingdom: "They brought in their own rigs for drilling the gas wells. They saw an opening, and now they're starting to supply us (i.e., Aramco itself, not the JV) with rigs and construction services." Rafie noted that several of the JVs, including Sinopec's, had expressed an interest to Aramco in expanding the terms of their concession to exploit natural gas fields, should they be discovered. Asked by the CG whether President Jintao's visit to Aramco on April 23 had resulted in any concrete agreements, Rafie responded, "I think we are going in the right direction," noting that "some progress" was made in discussing terms for two long-delayed refinery joint ventures in China at Fujian and Qingdao.

¶4. (C) Giving the CG and EconOff a quick survey of major upcoming JV projects in Saudi Arabia, Rafie said that Aramco was nearing a final decision on partners for two new export refineries and noted that "ConocoPhillips will be one of them." He said that The Dow Chemical Company was a potential partner for an integrated petrochemical refinery planned for Ras Tanura and expected to be on a similar scale as Aramco's JV with Sumitomo in Rabigh. He gave figures of 7 billion cubic feet per day (Bcf/d) and 800 Mmcf/d for Aramco's production of C1 and C2 gas respectively, saying that Aramco expected C2 production to increase to 1 Bcf/day. The CG noted that Aramco seemed to be moving forward with its plan to increase maximum sustainable oil production capacity (MSC) to 12 or 12.5 million barrels per day (depending on whether Neutral Zone production is included) and asked if Aramco had begun to make plans for increasing MSC further after 2009.

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Rafie said that Aramco had teams studying this question intensively and continued that, in his "personal opinion," Aramco would probably not raise MSC after reaching its 2009 goal. "We are capable of increasing it, but at some point the world has to learn that we cannot keep increasing supply. There have to be alternatives."

¶5. (C) The CG then asked Rafie whether the failed terrorist attack at Abqaiq was changing Aramco's approach to security. Giving essentially the same account as provided in reftel though with fewer details, Rafie noted that the main lesson Aramco executives drew from the incident is that "we can't rely on others for security." (Note: By others, Rafie meant Saudi security forces on the perimeter of key Aramco installations. End note.) He said that Aramco had quickly moved concrete blocks behind the gate the terrorists had rammed and planned to be "spending a lot of money" for more extensive security upgrades. Rafie then changed the subject to education, clearly his passion. "What I worry about is that we aren't doing enough to stop creating terrorists, to cut that kind of thinking off at its roots." He explained that he had recently shared his diagnosis of the critical flaws in the Saudi educational system with the Minister of Education, but that he feared "no one has the courage to admit we have big problems."

¶6. (C) Bio note and comment: Rafie is a petroleum engineer by training and has attended several executive education programs in the U.S. He served on the Kingdom's negotiating team for the National Gas Initiative in 2000, became Senior VP for Gas Operations in June 2000, moved to Senior VP for Industrial Relations in November 2001, and then returned to the gas portfolio in September 2005. He is nearing retirement, and we have no evidence that the "personal opinion" he expressed on MSC after 2009 is shared by the SAG or other Aramco officials. A decision on MSC after 2009 is undoubtedly a decision that would be made at the level of the Saudi king himself, although it is worth noting that at least one senior Aramco insider does not believe it is in Saudi Arabia's interest to continue expanding its capacity post-2009, a development that would have a profound impact on

global energy supplies and prices. End bio note and comment.

(APPROVED: KINCANNON)
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